

Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 AGRE-00 CEA-01 CIAE-00 COME-00
DODE-00 EB-07 FRB-03 H-01 INR-07 INT-05 L-03 LAB-04
NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15 STR-04
ITC-01 TRSE-00 USIA-06 PRS-01 SP-02 FEAE-00 OMB-01
OES-06 OPIC-03 XMB-02 ARA-06 EA-07 PM-04 /127 W
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R 232001Z DEC 76
FM AMEMBASSY PARIS
TO SECSTATE WASHDC 8241
ALL EC CAPITALS 0274
USDEL MTN GENEVA
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E. O. LL652: N/A
TAGS: EEC, ETRD, EIND, FR
SUBJECT: EC CRISIS PLAN FOR STEEL INDUSTRY: FRENCH
INDUSTRY REACTION

REF: (A) EC BRUSSELS 12551; (B) EC BRUSSELS 12424;
(C) EC BRUSSELS LL929

1. SUMMARY ON DECEMBER 22, 1976, CLAUDE CATHERINE,
ASSISTANT TO PRESIDENT JACQUES FERRY, FRENCH IRON AND
STEEL INSTITUTE, GAVE EMBOFF UNENTHUSIASTIC APPRAISAL
OF EC CRISIS PLAN FOR STEEL INDUSTRY. FROM FRENCH
INDUSTRY POINT OF VIEW, PLAN IS TOO LATE, TECHNICALLY
INSUFFICIENT, AND PERHAPS MYOPIC FOR EUROPEAN
INDUSTRY AT LARGE BECAUSE IT DOES NOT ADDRESS NEW
DIFFICULTIES WHICH MAY NOW ARISE FROM INTERACTION OF
IMPORT SURGES, DEPRESSED EUROPEAN INVESTMENT, RECENTLY
ANNOUNCED RESTRICTIONS ON HOME PRODUCTION, AND PERHAPS
SOON, A MINIMUM PRICING REGIME FOR EC STEEL PRODUCTS.
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END SUMMARY.

2. FRENCH STEEL INDUSTRY, ACCORDING TO CATHERINE,
REGARDS PLAN AS "SYMPATHETIC" AND IN "SPIRIT" OF
TREATY OF ROME, BUT NOT THE KIND OF TOUGH RESPONSE
CALLED FOR AT TIME WHEN RATIO OF STEEL DEMAND TO

CAPACITY IS WORST IN HISTORY OF EUROPEAN STEEL INDUSTRY. DELIVERY RESTRICTIONS ON EC PRODUCERS ARE ESSENTIALLY VOLUNTARY. ALTHOUGH SUBJECT TO AUDIT BY EC COMMISSION, PRODUCER COMPLIANCE WITH QUOTA PROVISIONS OF PLAN IS NOT COMPELLED BY EXPLICIT SANCTIONS. SIMILARLY, VOLUNTARY RESTRAINT ARRANGEMENTS WITH NON-EC COUNTRIES WILL NOT INCORPORATE JURIDICAL BASIS (I.E., SANCTIONS) FOR COMMISSION ACTION IF ARRANGEMENTS ARE UNSUCCESSFUL IN CURBING IMPORTS OR PROTECTING EUROPEAN STEEL INDUSTRY. CATHERINE DISTINGUISHED PROPOSED EC "ENGAGEMENTS" WITH STEEL EXPORTERS FROM ORDERLY MARKETING AGREEMENTS (OMA) ENVISAGED IN U.S. TRADE ACT OF 1974, SECTION 203 (A) (4). HE NOTED ENVIOUSLY THAT U.S. TRADE LAW CONTAINS JURIDICAL FOUNDATION FOR GOVERNMENTAL ACTION BASED ON IMPORT THREAT TO DOMESTIC INDUSTRY, AND PROVISIONS FOR ALTERNATIVE ACTION IF OMA'S ARE NOT SUCCESSFULLY CONCLUDED OR PROVE INADEQUATE TO PROTECT DOMESTIC INDUSTRY. HE REPEATED FRENCH INDUSTRY'S DESIRE FOR SIMILAR PROTECTION.

3. CATHERINE STRESSED THAT PRESENT LEVEL OF U.S. STEEL EXPORTS PRESENTS NO PROBLEM WHATSOEVER FOR EUROPEAN STEEL INDUSTRY, BUT ACKNOWLEDGED THAT U.S. EXPORTS WOULD NEVERTHELESS BE SUBJECT TO EC OR FRENCH (SIC) COMPREHENSIVE IMPORT RESTRICTIONS, IN THE EVENT THAT SUCH RESTRICTIONS ARE MADE NECESSARY BY DEPRESSED EUROPEAN INVESTMENT, LOW DOMESTIC STEEL PRODUCTION, OR MINIMUM PRICING REGIME WHICH MAY EVENTUALLY BE ESTABLISHED FOR EC STEEL PRODUCTS.

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4. SPEAKING SPECIFICALLY ABOUT SITUATION IN FRANCE, CATHERINE REITERATED STEEL INDUSTRY BELIEF THAT INVESTMENT IN FRANCE WILL REMAIN DEPRESSED AT LEAST UNTIL AFTER LEGISLATIVE ELECTIONS IN SPRING 1978 BECAUSE OF UNCERTAIN POLITICAL/ECONOMIC SITUATION. FRENCH STEEL INDUSTRY, HE SAID, ACCEPTS INEVITABILITY OF GENERAL LAYOFFS (LICENCIEMENT COLLECTIF), FOR FIRST TIME IN ITS HISTORY. WHILE INDUSTRY IS CONFIDENT IT CAN ADAPT TO DEPRESSED MEDIUM-TERM SITUATION, THIS CAN ONLY BE ACHIEVED BY CONCENTRATION OF LIMITED PRODUCTION IN EFFICIENT FACILITIES, WITH INEVITABLE IMPACT ON EMPLOYMENT IN LESS EFFICIENT PLANTS. INSTITUTE PROPOSED TO GOF LAST WEEK THAT GOVERNMENT SUPPORT RESTRUCTURING OF FRENCH STEEL INDUSTRY WITH FINANCIAL ASSISTANCE WHICH WOULD PERMIT ENDEBTED FIRMS TO SHOULDER SOCIAL CHARGES ARISING FROM RADICAL (BY FRENCH STANDARDS) CUTBACKS AND REDEPLOYMENT OF LABOR.

5. CATHERINE DEFINED THREE-FOLD PROBLEM FOR FRENCH STEEL INDUSTRY: (1) HEAVY INDEBTEDNESS OF INDUSTRY RESULTING FROM SIGNIFICANT INVESTMENT DURING PAST TEN YEARS (WHICH IRONICALLY IS REASON FOR FRENCH CONFIDENCE IN LONG-TERM VIABILITY OF INDUSTRY, PROVIDED

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INEFFICIENT FACILITIES CAN BE CUT BACK); (2) LOW WORLD PRICE LEVELS FOR STEEL WHICH INSTITUTE BELIEVES DO NOT YET FACTOR IN FULL IMPACT OF HIGHER ENERGY AND RAW MATERIAL COSTS; AND (3) EXCESSIVE IMPORT SURGES (E.G., JAPANESE MONTHLY EXPORTS TO COMMUNITY IN 1976 ARE SEVEN TIMES LEVEL OF 1974, NOT TO MENTION THOSE FROM SPAIN, BRAZIL, SOUTH KOREA.) EC CRISIS PLAN RESPONDS TO NONE OF THESE DIFFICULTIES, HE SAID.

6. CATHERINE CONTINUED THAT IRON AND STEEL INSTITUTE SEES MAJOR SIGNIFICANCE OF EC PLAN FOR FRENCH INDUSTRY IN TERMS OF WORLD ATTENTION IT DRAWS TO NEED FOR BROAD INTER-GOVERNMENTAL STEEL NEGOTIATIONS. THESE COULD PRODUCE MECHANISM FOR CONTROLLING PRESENT ACTION-REACTION SYNDROME AMONG INDIVIDUAL DOMESTIC STEEL INDUSTRIES.

CURRENTLY, TRADE CLIMATE IS BEING POISONED BY MISTRUST,
LEGAL ACTIONS, AND INFLATED FEARS ON PART OF DOMESTIC
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STEEL INDUSTRIES. HE CONCLUDED BY SAYING JACQUES FERRY
HAD IMPRESSION FROM LAST MEETING WITH AMBASSADOR WALKER
IN LONDON THAT USG IS NOW FAVORABLY INCLINED TOWARD
SECTORAL APPROACH TO STEEL IN MTN NEGOTIATIONS. FRENCH
INDUSTRY HOWEVER, IS UNCERTAIN WHETHER USG POLICY WILL
PROCEED ALONG THIS LINE AFTER CHANGE OF ADMINISTRATION
IN WASHINGTON NEXT MONTH.

7. COMMENT: OFT-REPEATED FRENCH WISTFULNESS ABOUT
BROAD PROTECTIVE POWERS ALLEGEDLY CONTAINED IN U.S.
TRADE ACT RING HOLLOW IN OUR EARS. FRENCH HAVE
ABUNDANTLY DEMONSTRATED IN RECENT YEARS THEIR READINESS
TO STRETCH GATT AND EVEN EC RULES WHEN NECESSARY TO
PROTECT FRENCH JOBS. ARBITRARY AND PROBABLY ILLEGAL
RESTRAINTS AGAINST ITALIAN WINE AND U.S. PHOSPHATE
FERTILIZERS ARE RECENT CASES IN POINT. IF THINGS GET
BAD ENOUGH IN STEEL INDUSTRY, GOF IS NOT ABOVE RESORT
TO A "FRENCH SOLUTION" AS CATHERINE HINTED.
RUSH

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